

Message Text

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TO USLO PEKING

INFO AMCONSUL HONG KONG

C O N F I D E N T I A L STATE 026970

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LIMDIS

E.O. 11652: GDS

TAGS: EIND, ETRD, CH

SUBJECT: US FERROUS SCRAP EXPORTS TO THE PRC

REFS: (A) PEKING 137

(B) STATE 12655

1. RESPONSE TO REFTEL A HAS BEEN HAMPERED BY COMMERCE DEPARTMENT'S RECENT REVERSAL OF PREVIOUSLY LIBERAL POLICY OF EXTENDING 1973 EXPORT LICENSES. WE UNDERSTAND THAT SENIOR LEVELS OF COMMERCE ARE SERIOUSLY CONCERNED OVER UNEXPECTEDLY LARGE WORLDWIDE VOLUME OF FERROUS SCRAP LICENSED IN 1973 FOR EXPORT, AND OVER LARGE VOLUME OF UNUSED 1973 LICENSES CARRIED OVER INTO 1974. IN COMMERCE'S VIEW, THIS LARGE CARRYOVER TENDS TO DEFEAT THE PURPOSE OF THE CONTROL PROGRAM. AS INDICATED IN REFTEL B, WE HAD BEEN COUNTING ON 1973 CARRYOVER, SUPPLEMENTED IN PART PERHAPS BY AN ALLOCATION FROM THE 100,000-TON CON-
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TINGENCY RESERVE, TO TIDE US OVER FIRST QUARTER PROBLEM

WITH PRC. THE DEPARTMENT HAS BEEN URGING COMMERCE TO BE MORE FLEXIBLE IN ADMINISTERING DETAILS OF THE PROGRAM WHICH AFFECT THE PRC, BUT WE WILL PROBABLY HAVE TO MAKE A SPECIAL CASE ARGUMENT ON EACH REQUEST FOR LICENSE EXTENSION WHICH IS MADE BY A U.S. EXPORTER.

2. WE HAVE CHECKED INTO THE FIVE COMPANIES MENTIONED BY MINMETALS' WANG AND FOUND THAT NONE HOLD 1974 QUOTA ENTITLEMENTS AND THEREFORE ARE NOT PRESENTLY ELIGIBLE TO

RECEIVE 1974 EXPORT LICENSES BECAUSE THEY DID NOT ACTUALLY SHIP SCRAP TO THE PRC PRIOR TO JULY 1, 1973. WE FULLY RECOGNIZE THAT THIS PRESENTS A DIFFICULT PROBLEM IN VIEW OF UNUSUALLY HEAVY EMPHASIS CHINESE PLACE ON CONTRACT FULFILLMENT, BUT BELIEVE WE WILL HAVE LITTLE OR NO FLEXIBILITY ON THIS ISSUE UNDER PRESENT REGULATIONS.

3. WE DO, OF COURSE, WISH TO RESPOND TO MINMETALS' QUESTION ON THE CONTRACTS (AND WE NOTE THAT MINMETALS DID NOT SPECIFICALLY REFER TO U.S. EXPORT CONTROLS). WE BELIEVE, HOWEVER, THAT THIS RESPONSE SHOULD BE IN A BROADER CONTEXT OF EXPLAINING THE PROGRAM AND ITS RATIONALE, INDICATING THAT WE ARE AWARE OF THE EFFECTS OF THE PROGRAM ON NEW CUSTOMERS AND HAVE REVIEWED THE PRC SITUATION AT AN APPROPRIATELY HIGH LEVEL, AND INFORMING THE PRC THAT WHILE SOME RELIEF MAY BE POSSIBLE IT IS UNLIKELY THAT WE WOULD BE ABLE TO MEET ALL THEIR NEEDS.

4. WE COMMEND USLO'S HANDLING OF THIS PROBLEM TO DATE. HOWEVER, A PRESENTATION OF THE TYPE OUTLINED IN PARA 3 SHOULD PROBABLY BE MADE INITIALLY IN WASHINGTON BY THOSE DIRECTLY INVOLVED IN THE CONTROL PROGRAM. ALSO, A WASHINGTON APPROACH: (A) INVOLVES THE PRCLO IN AN ECONOMIC/COMMERCIAL ISSUE, AND THROUGH THEM THE MINISTRIES OF FOREIGN AFFAIRS AND FOREIGN TRADE (WE HAVE NOT YET CALLED IN THE PRCLO ON ANY SUCH ISSUE AND THEY HAVE SHOWN AN UNDESIRABLE RELUCTANCE TO APPROACH US ON MATTERS INVOLVING USG REGULATIONS); AND (B) AVOIDS THE NECESSITY OF USLO'S TAKING AN ESSENTIALLY NEGATIVE MESSAGE TO MINMETALS. AMBASSADOR BRUCE AGREES THAT CONFIDENTIAL

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INITIAL EXPLANATION SHOULD BE MADE BY DEPARTMENT TO PRCLO.

5. THE DEPARTMENT TENTATIVELY PLANS TO CALL IN PRCLO OFFICERS EARLY NEXT WEEK. A FOLLOW-UP DISCUSSION IN PEKING WITH MINMETALS MIGHT BE USEFUL TO REITERATE POINTS MADE IN WASHINGTON APPROACH AND SEE IF THERE IS ANY MINMETALS REACTION. WE WILL PROVIDE REPORT OF OUR MEETING

AND WOULD THEN APPRECIATE USLO'S VIEWS ON THIS. KISSINGER

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